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IN THE

Supreme Court of the United States

OCTOBER TERM, 1998

Bruce A. Lehman,
Commissioner of Patents and Trademarks,
Petitioner

v.

Mary E. Zurko, Thomas A. Casey, Jr., Morrie Gasser,
Judith S. Hall, Clifford E. Kahn, Andrew H. Mason,
Paul D. Sawyer, Leslie R. Kendall, and
Steven P. Lipner,
Respondents

On Petition for Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF AMICUS CURIAE THEIS RESEARCH IN SUPPORT OF PETITIONER ON THE MERITS

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Interests of the Amicus Curiae[1]

Amicus curiae Theis (pronounced "Tice") Research, Inc., holds interests in high technology voice and telecommunications patents. These do not involve the subject matter of the respondents' patent application. Theis Research is concerned for the interests of inventors of breakthrough technologies and the importance of the patent system to the Nation's economy.

The broader issue of the Federal Circuit's lack of deference to the patentability determinations of the Patent and Trademark Office (PTO) needs to be addressed by this Court. Because of the need for such deference in patent infringement (and declaratory judgment) actions, Theis Research sides with the government in this case against parties who applied for a patent for their claimed invention. The Federal Circuit's lack of deference to the prior patentability determinations of the PTO has flooded the patent system with uncertainty—casting a chilling effect on the inventive community, investment, and the marketing of new technologies.

Theis Research recently petitioned this Court for certiorari in *Theis Research, Inc. v. Octel Communications Corp. et al.* (no. 97-1773, cert. denied June 26, 1998, rehearing denied August 12, 1998). The certiorari petition in *Theis Research* addressed the uncertainty and unpredictability infused into the patent system by the Federal Circuit's approach to patentability (patent validity) challenges asserted in patent infringement and

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[1] This brief is submitted with the consent of the parties. While counsel for Theis Research has discussed this case with counsel in the Solicitor General's office and with co-counsel for respondents, this brief was not authored, in whole or in part, by counsel for a party. No monetary contribution to its preparation or submission was made by any person or entity other than Theis Research, Inc., its counsel, and Law Practice Interests LLC, a non-equity investor in Theis Research.

declaratory judgment actions.[2] The Federal Circuit refuses to accord deference to patentability determinations that have already been made by the PTO, holding such questions open for de novo litigation between private parties. Also, the Federal Circuit's standard for reviewing jury verdicts of patent invalidity for obviousness[3] has devolved to a very deferential "substantial evidence" test,[4] further eroding consistency from

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[2] Peter Theis pioneered the technology that underlies voicemail. In the *Octel* case, several of his patent claims were erroneously adjudicated invalid as obvious based on Theis' own prior invention—which was before the PTO when it determined his claims to be patentable and issued the patent. The trial court did not recognize that Theis' substantial inventive effort in discovering the sources of problems that prevented telephonic application of his prior invention was itself patentable, even though the solutions to those problems utilized known elements.

[3] Recent years have seen a proliferation of juries deciding obviousness and other challenges by alleged infringers to patent validity. *See In re Lockwood*, 50 F.3d 966, 980 & n.1 (Fed. Cir. 1995)(dissent from denial of en banc rehearing), *vacated and remanded sub nom. American Airlines, Inc. v. Lockwood*, 515 U.S. 1182 (1995).

[4] As stated by the Federal Circuit in the *Octel v. Theis Research* case (1997 West Law 697288): "TRI's arguments do not overcome its heavy burden of demonstrating that there is no substantial evidence from which a reasonable jury could conclude that the claimed invention would have been obvious from the prior art." *Theis Research* cert. pet. appendices at A-7.

See also U.S. Surgical Corp. v. Ethicon, Inc., 103 F.3d 1554, 1559 (Fed. Cir. 1997)(whether "there was substantial evidence whereby a reasonable jury could have reached the verdict reached by this jury"; "that minimum quantum of evidence from which a jury might reasonably afford relief").

The substantial evidence test does not even consider any

the patent system.

Summary of Argument

This case involves the rejection of a patent application by the PTO (Board of Patent Appeals and Interferences) on the ground of obviousness—the very same patent validity issue in the *Theis Research* case.[5] In this case, the Federal Circuit reversed under a searching clear error standard. The outcome of this case turned on the Federal Circuit's refusal to review the PTO's determination under the more deferential standards of the Administrative Procedure Act (APA)(5 U.S.C. § 706(2)(E) substantial evidence, 5 U.S.C. § 706(2)(A) arbitrary, capricious, abuse of discretion). Govt. cert. pet., app., 2a-3a.

The *Theis Research* rehearing petition addressed the paradox that permeates the entire patent system as a result of the Federal Circuit's refusal in this case to apply to PTO determinations the very deferential "substantial evidence" standard of review that it accords to jury verdicts of invalidity (as in the *Theis Research* case). Thus, for highly technical and legally complex determinations of patentability, the Federal Circuit gives the most deference to those least knowledgeable (juries) and the least—or *no*—deference to those most knowledgeable (the PTO). Though disappointed that the Court

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contrary determination by the PTO—the test only considers whether the evidence that supports the verdict of invalidity is "substantial."

[5] Under 35 U.S.C. § 103(a), the PTO does not issue a patent for any claimed invention it determines to have been "obvious." The "obviousness" test compares the claimed invention with the "prior art" (generally, the public or unprotected information available at the time of the invention) and asks whether the invention as a whole would have been obvious to a person having ordinary skill in the subject matter.

did not grant certiorari in *its* case, Theis Research urges the Court to address in this case the upside-down jurisprudence of the Federal Circuit.

Specifically, Theis Research respectfully requests that the Court address in its decision in this case the larger picture—providing guidance on appropriate judicial deference to PTO administrative determinations that also has application in patent infringement and declaratory judgment actions.

The Federal Circuit's encroachment on administrative determinations also results in unfairness to those patentees who received their patents from the PTO without having to appeal to the Federal Circuit. Under the Federal Circuit's existing jurisprudence, a patent emerging from prosecution without the Federal Circuit's imprimatur is second class. Although Theis Research does not challenge the decision below as unconstitutional per se, this inequity cannot be resolved within the confines of Article III and the existing jurisprudence.

Argument

1. By Its Lack of Deference, the Federal Circuit Has Intruded on the Administrative Functions of the PTO

In its decision below, the Federal Circuit issued an expansive assertion of its own authority in derogation of the statutory role of the PTO. The Federal Circuit's refusal to follow the judicial review standards of the APA when reviewing administrative determinations of patentability by the PTO, and its resistance to apply in the context of patent law the doctrine set forth by this Court in *Chevron U.S.A. Inc. v. Natural Resources Defense Council,* 467 U.S. 837 (1984), are

anomalous and without justification.[6] *See* Craig Allen Nard, *Deference, Defiance, and the Useful Arts,* 56 Ohio St. L.J. 1415 (1995).

The technical and scientific complexities that frequently determine patentability make it hard to contemplate a program better suited to administrative expertise. By insisting on reviewing patentability according to its "own reasoning" instead of deferring to the reasoning of PTO patent examiners, the Federal Circuit has set itself up as a super examiner. *See* govt. cert. pet., app., 3a, 25a. Such an allocation of administrative and judicial responsibilities is worse than duplicative, it fails to recognize the appropriate role and expertise of each branch.

That obviousness is ultimately a question of law (*see Graham v. John Deere Co.*, 383 U.S. 1, 17 (1966)(underlying factual inquiries); *Panduit Corp. v. Dennison Mfg. Co.*, 818 F.2d 1561, 1566-1567 (Fed. Cir. 1987)) does not undermine the appropriateness of judicial deference to the administrative

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[6] To reach its conclusion that the judicial review standards of the APA do not apply to its review of the PTO's administrative determinations concerning patentability, the Federal Circuit employed a perplexing interpretation of the legislative history of the APA. An early version of the APA legislation contained an express exclusion as to the (then) Patent Office. Govt. cert. pet., app., 7a. This exclusion did not appear in the version of the APA that was enacted. Instead of making the customary interpretation that the exclusion should not be inferred after it has been explicitly omitted from the final version of the legislation enacted by Congress, the Federal Circuit cited the prior existence of this exclusion in the early version of the legislation as reason to imply an exclusion of the Patent (and Trademark) Office from the reach of the APA standard of review. Govt. cert. pet., app., 8a-9a. To summarize the Federal Circuit's "logical" construct: if not A, then A.

determinations by the PTO. Judicial deference to the determinations of a responsible administrative agency extends to questions of law (*see Chevron U.S.A. Inc. v. Natural Resources Defense Council*, 467 U.S. at 844-845), particularly with respect to a highly technical regulatory program requiring significant expertise (*Thomas Jefferson Univ. v. Shalala*, 512 U.S. 504, 512 (1994); *Pauley v. BethEnergy Mines, Inc.*, 501 U.S. 680, 697 (1991)). This accords with the presumption of validity set forth in 35 U.S.C. § 282, which attaches once a patent has been issued by the PTO.

2. The Federal Circuit's Current Approach Has Flooded the Patent System with Costly Uncertainty

As this Court recognized in *Cardinal Chemical Co. v. Morton International, Inc.*, 508 U.S. 83, 100 (1993), questions of patent validity are important to the public at large. In that case, the Court overturned a Federal Circuit practice of leaving controverted validity questions unresolved once an accused product was determined not to infringe the patent.

Uncertainty over the validity of a patent has far-reaching consequences. It has a chilling effect for the life of the patent. The uncertainty affects the industry that the patent concerns, including competitors and customers. It increases risks for investors, clouds the future for the employees of small businesses that develop innovations, increases the difficulty of start-up and getting innovations to market, and encourages infringement.

In both appeals from patent application denials and infringement/declaratory judgment actions, the Federal Circuit's lack of deference to PTO determinations invites litigation. An unsuccessful patent applicant is encouraged to ignore the reasoning of the administrative finding and litigate an appeal.

A successful patent applicant is often in a worse position. Infringers are encouraged to litigate the validity of the patent by the same knowledge that the administrative finding will be ignored. Notwithstanding the statutory presumption of the validity of an issued patent, exceedingly complex patentability questions are tried to juries de novo based on private expert witness testimony without any appearance by—let alone deference to—the PTO.[7] Often, a jury must make these retrospective decisions many years after a patent has issued—long after the invention has become part of ordinary trade and commercial use. The Federal Circuit then defers to jury verdicts of invalidity under the substantial evidence test that it refuses to apply to PTO determinations of the very same issues. *Cf.* fn. 4, *supra, and* govt. cert. pet., app., 2a-3a, 5a-6a (5 U.S.C. § 706(2)(E)).[8]

The common thread in both types of cases is the Federal Circuit's misguided view that the patentability/validity determinations already made by the PTO should be redone—

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[7] The Federal Circuit's misapplications of standards of review is all the more dismaying given the statutory prescription that an issued patent carries a presumption of validity; no such presumption applies where a patent has not been issued. *See* 35 U.S.C. § 282.

[8] The commercially valuable patents of independent inventors have become bait for litigation. It is no secret why a substantial infringer would prefer a random and costly litigation process over a request for reexamination of patent validity by the PTO under 35 U.S.C. § 302. Rather than obtain licenses to use these patents, major infringers are economically motivated to intimidate under-financed patent holders with threats of costly trials of validity issues, disappearing deference to the PTO, and the statistical inevitability that sooner or later a legitimate patent claim will be defeated by a jury—and affirmed by the Federal Circuit under a substantial evidence test. These threats are real and, therefore, effective.

by a jury (the *Theis Research* case) or, if a jury is not available to be saddled with this task, by the Federal Circuit itself (this case). Either way, the Federal Circuit invites litigation to reopen the questions. The determinations of the PTO—both as to patents issued and applications denied—have become meaningless.

In its en banc decision in this case, the Federal Circuit erroneously anticipates that its approach "will preserve the confidence of inventors who have relied on this standard in prosecuting their patents. It will also promote consistency between our review of the patentability decisions of the board and the district courts in infringement litigation." Govt. cert. pet., app., 26a. As noted, a patent applicant who is successful before the PTO has no reason for confidence in an administrative decision that commands little respect from the Federal Circuit.

Moreover, the Federal Circuit's frequent application of a very deferential "substantial evidence" test to jury verdicts of patent invalidity belies the suggestion that the Federal Circuit would actually "promote consistency" by redoing the PTO's work when reviewing appeals from application denials. Instead, this approach results in a paradox.

If it faithfully applies its substantial evidence standard of review to jury verdicts of invalidity, the Federal Circuit may very well have to affirm an invalidity verdict for a patent claim that the Federal Circuit itself had previously directed the PTO to issue based on the Federal Circuit's greater scrutiny of the same patentability question at the prosecution stage. (The possibility of such a case is demonstrated by the present case, where the Federal Circuit concedes that the result turns on its standard of review. Govt. cert. pet., app., 2a-3a.) By virtue of such cases, the Federal Circuit's determinations, in addition to the PTO's determinations, are subordinated to jury verdicts of

invalidity. *In effect, the Federal Circuit's jurisprudence erodes its own authority and compromises the integrity of its judgments.*

Instead of promoting consistency, the lack of deference to PTO patentability determinations has had the opposite effect—stripping reliability and predictability from the patent system. If PTO patentability determinations are not to be taken seriously, we may as well not have a patent system at all—just de novo litigation of "priority of invention" claims. Such a decision should be made by Congress, not the Federal Circuit.

3. The Federal Circuit's Encroachment on the Administrative Functions of the PTO Denies Certainty to Those Patents More Deserving of Certainty

A. Two Classes of Patents Now Emerge from the Prosecution (Issuing) Stage

In alleging that its standard of review in this case will "promote consistency between our review of the patentability decisions of the board and the district courts in infringement litigation," the Federal Circuit makes a short-sighted claim to enhancing the reliability of patents. If this contention is to be given any credence, it is a glaring—if unintended—indictment of a two-class system that the Federal Circuit has established.

The Federal Circuit implies that where the Federal Circuit decides that a patent should issue, the patent is dressed with reliability. Presumably, to spare the Federal Circuit the challenge of a verdict that reverses a prior Federal Circuit determination of patentability, the trial courts will be disinclined to allow an invalidity judgment for a patent claim already determined by the Federal Circuit to be patentable.

However, the only patent claims that receive the blessing

of the Federal Circuit's imprimatur during prosecution are those so marginally patentable that they were rejected by the PTO in the first instance. Inventions determined by the *PTO* to be patentable do not receive the benefit of the Federal Circuit's seal of approval. The reliability of any patent issued in the first instance by the PTO is suspect—its patentability has not been decided by an agency whose "own reasoning" counts.

B. As an Article III Court, the Federal Circuit Cannot Remedy the Inequity That Results from Its Current Approach

The Federal Circuit lacks the power to resolve this inequity by granting its imprimatur during prosecution to patents issued in the first instance by the PTO. Under the Federal Circuit's current approach, an inventor whose right to a patent is strong enough to obtain issuance from the PTO in the first instance must face—years down the road—the gauntlet of patentability challenges in infringement (and declaratory judgment) actions—without the Federal Circuit's imprimatur, and without any APA-level deference to the PTO's patentability determinations.

As an Article III court, the Federal Circuit is constitutionally proscribed from granting its imprimatur at the prosecution stage to a patent applicant who has been successful before the PTO. The Federal Circuit may not issue advisory rulings endorsing the patentability determinations of the PTO.

The judicial power of the United States extends only to cases and controversies. U.S. Const., Art. III, § 2. Three criteria comprise the core of Article III's case-or-controversy requirement (the "irreducible constitutional minimum of standing"): an alleged injury in fact, a fairly traceable connection between the injury and the complained-of conduct of the defendant (or respondent), and a likelihood that the

requested relief will redress the alleged injury. *Steel Co. v. Citizens for a Better Environment*, __US __, 118 S.Ct. 1003, 1016-1017 (1998); *Lujan v. Defenders of Wildlife*, 504 U.S. 555, 560 (1992).

To be sure, any commercially valuable patent issued under the cloud of the Federal Circuit's existing jurisprudence of uncertainty is immediately imbued with controversy. But it would strain the credibility of the constitutional test for standing if an applicant were to contend "injury in fact" by virtue of the PTO's issuance of the patent for which application was made. In other words, constitutional standing criteria do not permit an applicant who succeeds in obtaining a patent from the PTO to turn around and claim to be aggrieved by the PTO in order to seek the Federal Circuit's endorsement.

The answer to this conundrum is to set right the respective roles of the courts and the PTO in the patent system. Patentability determinations by the PTO should be accorded deference according to the standards set forth in the APA—both at the prosecution stage and later in infringement and declaratory judgment actions.[9]

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[9] If, for any reason, the Court decides to affirm the judgment of the Federal Circuit below, Theis Research still requests that the Court address in its decision the bigger picture affecting the patent system. Theis Research would, in that event, request that the Court give guidance addressing the anomaly resulting from the Federal Circuit's decisions below and in patent infringement (and declaratory judgment) cases. Specifically, Theis Research would request that the Federal Circuit be directed, when reviewing jury and trial court determinations of invalidity, to employ consistently a clear error standard (using the Federal Circuit's "own reasoning") as to questions of fact and de novo review as to questions of law (including ultimate determinations of obviousness).

Conclusion

Theis Research, Inc., as amicus curiae, respectfully requests that the Court reverse the judgment of the Federal Circuit and provide guidance on appropriate judicial deference to PTO administrative determinations of patentability that has application in patent infringement and declaratory judgment actions as well as in appeals from patent application denials.

Respectfully submitted,

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December 1998